April 8, 2013

The Honorable Kevin Brady
301 Cannon Office Building
Washington, D.C. 20515

The Honorable Mike Thompson
231 Cannon Office Building
Washington, DC 20515

Dear Reps. Brady and Thompson:

As Chairman and Chief Executive Officer of EOG Resources, Inc., one of the largest independent Exploration and Production companies in the United States, I am writing to respectfully request your support in continuing the tax deductibility of intangible drilling costs ("IDCs")[1]. Since the inception of the federal income tax statutes, this tax treatment has proven to be instrumental in the development of the nation's hydrocarbon resources and in the realization of technical advances that will likely result in North American energy independence within the next decade.

EOG is the second largest independent E&P company in the U.S. (by market capitalization) and has been among the four most active domestic drillers in each of the past ten years. EOG was one of the first companies to experience widespread success in horizontal shale drilling and is the largest oil producer in the Eagle Ford shale, which a Texas energy regulator has described as having the potential of being the most significant economic development in Texas' history.[2]

The Eagle Ford and the other domestic shale plays were primarily discovered and developed by the independent E&P companies, which account for 80%-90% of all U.S. oil and natural gas production. Through numerous innovations made by the independents and their willingness to take on risk, the U.S. has significantly increased its oil and natural gas production and now enjoys the lowest natural gas prices of any industrialized country, thereby reinvigorating the domestic chemical and manufacturing industries, as well as favorably impacting GDP growth, balance of payments, employment, tax receipts and, of course, energy security.

Unlike government grants and subsidies furnished for alternative sources of energy, the IDC deduction is merely an allowance for ordinary and necessary business expenses. This expensing of drilling costs enables EOG and other independents to immediately reinvest cash from operations in the development of additional natural gas and oil resources in the United States. Unlike other manufacturing industries, E&P companies

[1] Intangible drilling costs are certain expenditures incurred in the drilling and completion of oil and gas wells, such as labor, supplies, and site preparation, which have no salvage value.
[2] After just two years of its discovery, the Eagle Ford shale provides 47,000 full time jobs, generates $250 million in government revenues, and produces over 300,000 barrels of oil per day.

must continuously expend capital simply to maintain constant production levels - curtailment in drilling activity results in immediate curtailment in oil and gas production. It must be recognized that the E&P sector differs significantly from other manufacturing industries - wells may be visualized as "mini-factories", but ones which must be constructed continuously in order to prevent business operations from ceasing.

EOG, as well as the majority of independent E&P companies, budgets annual drilling programs based on anticipated operating cash flows and reinvests 100% of its operating cash flows in new domestic drilling. If Congress repeals the deduction for IDCs, thereby increasing tax liabilities and reducing available cash (by as much as 25%, depending on the individual company's tax profile), EOG and other independents would have no choice but to dramatically reduce drilling capital. The revival in domestic oil and gas production, which has succeeded in reducing natural gas prices, improving the balance of payments, and increasing employment, will be very seriously affected by IDC repeal. Disallowing the immediate deduction of drilling expenses by U.S. independent exploration and production companies will make all U.S. companies and industries that benefit from lower energy costs less competitive in the global economy. I respectfully urge you to take these considerations into account during your deliberations.

Sincerely Yours,

Mark G. Papa